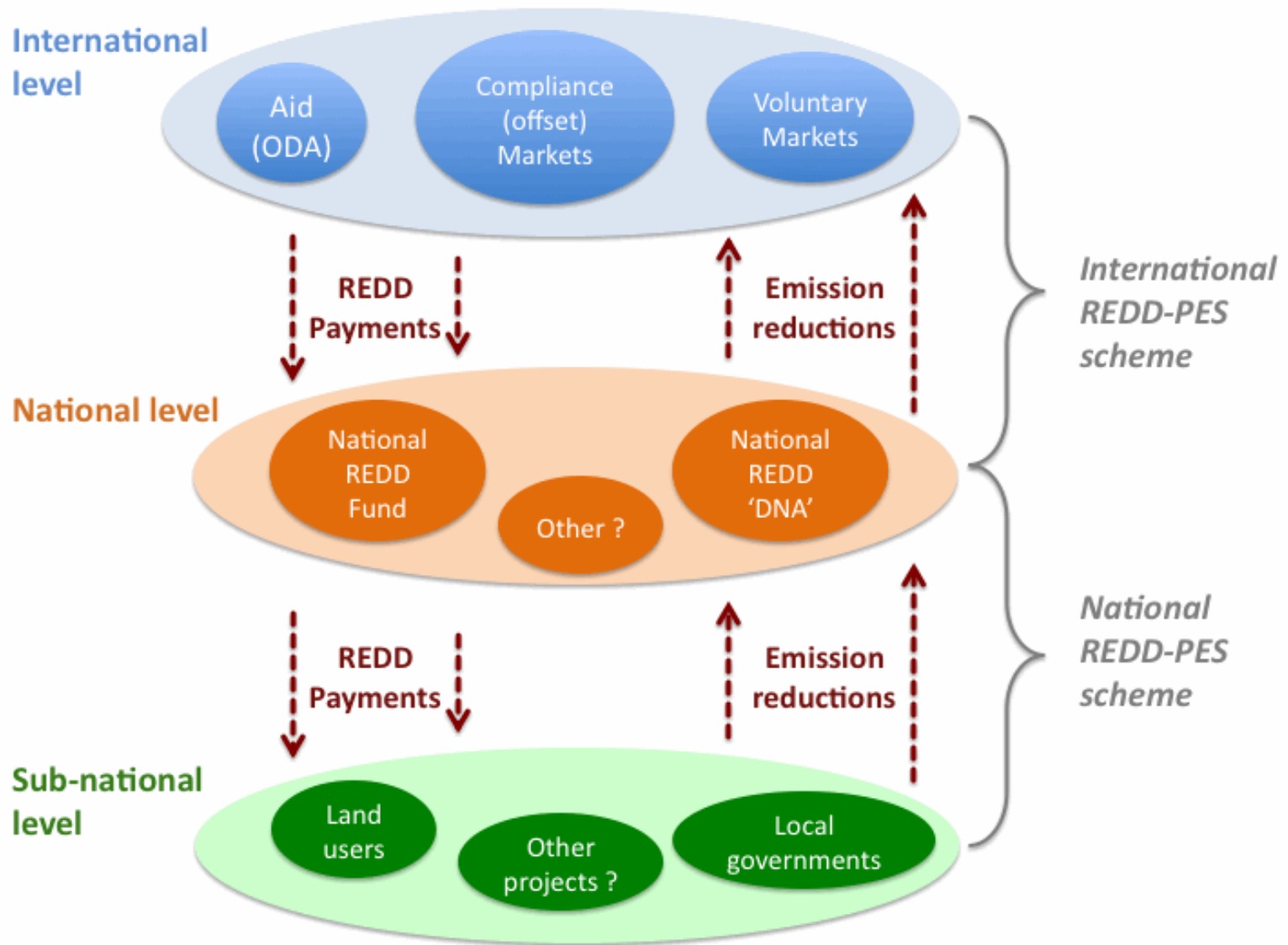# REDD+ as performance-based aid

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The original REDD+ idea:
multi-level PES (with carbon market funding)

A modified REDD+

Objectives: CO2   Co-benefits ➤

Policies: PES   Broad PAMs   Forest policies ➤

Scale: National   Local/projects ➤

Funding: Rich pay poor   Country commitment ➤

Funding: Market   Public ➤

Why has REDD+ changed?

- Learning by trying
  - PES is difficult
  - PAM is difficult: impacts?, political economy
  - Mobilizing funding is difficult
  - Using money is difficult
- Failure of Copenhagen (2009); will Paris (2015) succeed?
  - Not new climate deal
  - Different funding sources: broader objectives with aid
- Interests and ideologies
  - Resistance to 'commodification', markets and PES
  - Broadening scope and objectives to accommodate diverse interests

REDD as performance-based aid (PBA)

- The PES idea survived, but modified

- Now: 2/3 of international funding for REDD+ is from aid budgets

- «Aidification» of REDD+

  – PBA, conditional aid, result-based aid, …

- A strong faith in PBA:

"But with results-based payments I cannot see any large risk" (Erik Solheim, ex. Minister of Env. & Dev., Norway)

… a mixed experience

- Surprisingly, the development aid experience not brought into the REDD+ debate

- "This is indeed the core of what conditionality is supposedly about – aid buys reform. Unfortunately, it does no such thing" (Collier, 1997)

- "Conditionality is not an effective means of improving economic policies in recipient countries" (Killick, 1997)

- Differences in compliance, but no difference in aid disbursement in World Bank projects (Svensson, 2003)

- Much political support, little evidence (Eldridge and Palmer, 2009)

Challenge 1: Donors willing to spend (and recipients unwilling to reform): The budget pressure

- Strong pressure to spend

  – Seen as a measure of success

  – If not, risk cuts in future budgets

- How to change this?

  – Focus on *results* rather than aid *volumes*

  – Disbursement delinked from annual budget processes (multi-year funds)

  – Competition: "aid tournaments"

  – Third party to handle money

Create a positive opp.cost of aid funds:
No spending is good (otherwise threat not credible)!

.. how to change ….

Recipient country:

- Weaken domestic resistance to policy reforms needed to implement REDD+:

  – "Ownership" of the policy reforms

  – REDD+ aid gives financial arguments to proponents of policy reforms in domestic politics

  – Policy dialogue (or "cheap talk")

Challenge 2: Performance criteria and measurement

Level	Input	Activity or process	Output	Outcome	Impact
Focus	Quantities of various inputs, in values or time	Activities undertaken to produce specific outputs	Immediate/-technical results of intervention	Intermediate and mid-term effects, i.e. observable behavioral, institutional & societal changes	Broader and long term effects, often captured in sectoral statistics
Terms	Input indicators	Process indicators & milestones	Output indicators	Results indicators; Outcome indicators	Impact indicators; Goal indicators
REDD+ examples	Resources spent (USD); Technical assistance (person days)	National REDD+ plan completed; Free Prior Informed Consent (FPIC) consultations conducted	Policies adapted and enforced; No. of loggers adapted reduced impact logging practices	Reductions in deforestation; Reductions in unsustainable timber harvest	Certified/-verified changes in GHG emissions

Source: Wertz-Kanounnikoff and McNeill (2012)

Move to the right in the table (outcomes and impacts = results)

- But several problems with moving to the right:

- Time lag between the (costs of) actions and the payments

- Measurement is more challenging:

  1. Area

  2. Emission factors

- Benchmarks more difficult to define (next)

  – The noise increase as move to the right (lower signal/noise ratio)

- Allocation and sharing of risk (next)

Challenge 3: Benchmarks (reference levels)

- Benchmarks, i.e. the counterfactual in impact assessment, is genuinely difficult!

- Even more difficult in REDD+:

  – How to predict deforestation (and degradation) (BAU baseline)

  – Who is to pay (crediting baseline)?

- Huge implications:
  ---------$\rightarrow$

Example: how choice of RL matters!

1. Norway – Brazil agreement

 – baseline: deforestation last 10 years

 – updated every 5 years

 – 100 C/ha, USD5/CO2
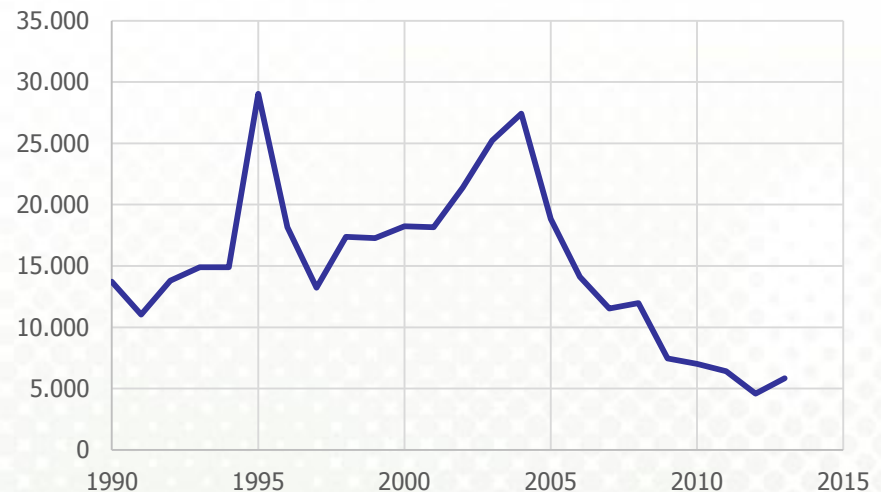
2. Alternative:

 - last 5 years, updated every year

Annual payment (USD million):

Deforestation (km²), Brazil

Year	1. Actual RL	2. Alternative RL
2009	2,213	1,707
2010	2,298	1,060
2011	1,814	733
2012	2,153	789
2013	1,920	301
Total	*10,398*	*4,590*

Challenge 4: Uncertainty and risk sharing

- Several sources of uncertainty:

  1. The BAU baseline; impact of external factors

  2. The costs of avoided deforestation and degradation

  3. The effectiveness of the REDD+ policies implemented

- Simple result-based contracts put most risk on the service provider (recipient country)

Challenge 5: Putting money behind the promise

- A result based system must have «credibility»:

  – A realistic expectation that money will be paid for results achieved

- A "puzzle":

  – A result-based system requires big money:
    50% cut, USD5/tCO2, CB=historical: USD10-15 bn/year

  – But cannot just throw big money into a very imperfect system with high uncertainty about results

- In the Brazil (and eventually Indonesia?) case:

  – Is the contract really result-based, given that there is no way Norway (or others) can pay for results?
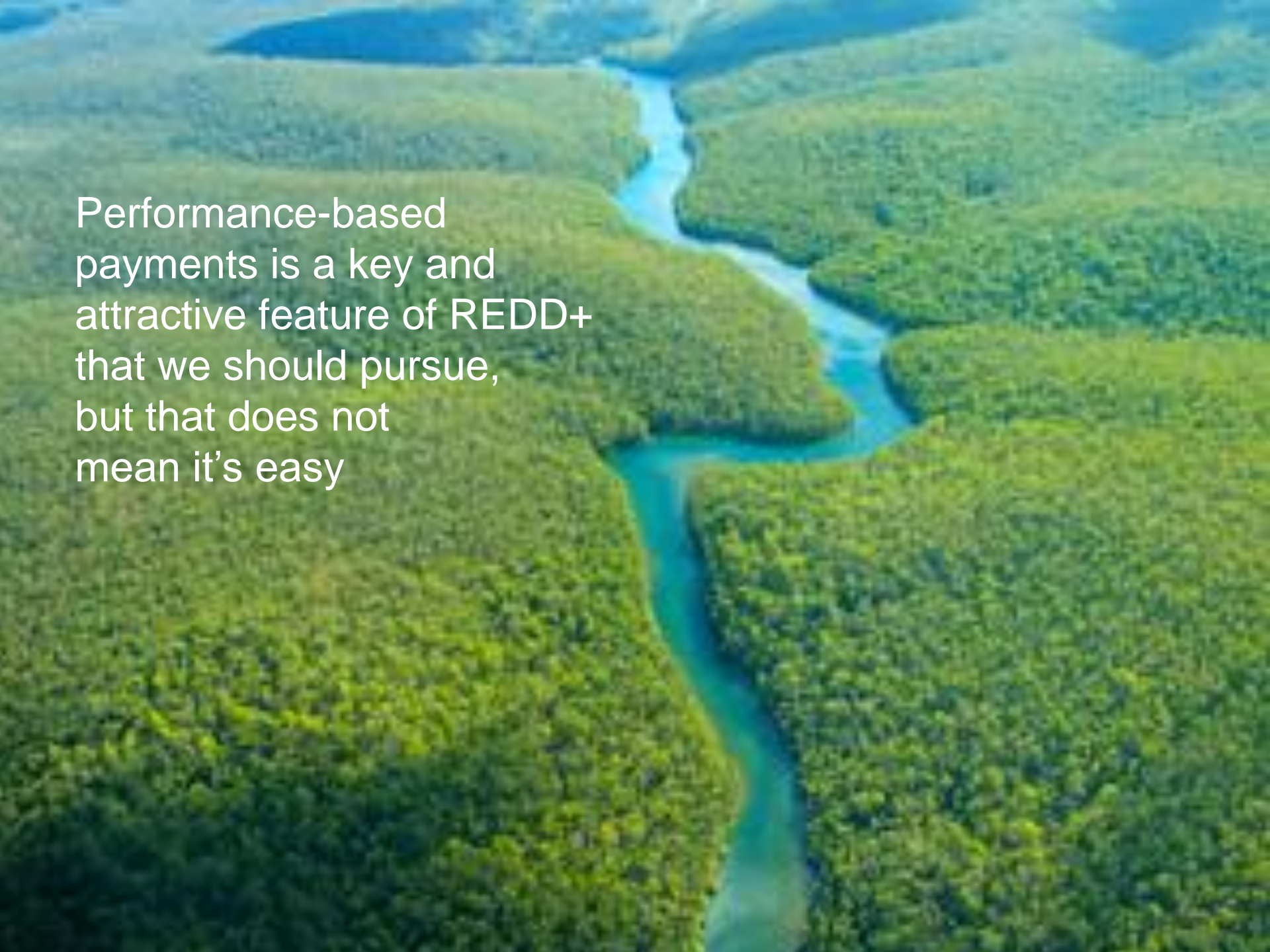
Norwegian contracts

	Phase I:	Phase II:	Phase III:
Log-frame element	Inputs & activities	Activities & outputs	Outcomes & impacts
Pay for what?	Build capacity, prepare REDD+ action	Policy reforms	Emission reductions
Norwegian agreements	Tanzania Indonesia (PI)	Guyana Indonesia (P-II)	Guyana Indonesia (P-III) Brazil

Lessons (to be) learned

1. REDD+ is not unique
   – we can learn from other forms of PBA

2. PBA is hard:
   – don't be naïve; it's no panacea
   – Start small, experiment

3. Don't promise more than you can keep
   – be credible about payments

4. Mechanisms to increase opportunity cost of funds
   – multi-year funds, competition ("aid tournaments"), disbursements handled by third parties

5. Don't make all (REDD+) aid performance-based
   – recipient predictability, maintain policy dialogue, credibility of the performance-based elements

Performance-based
payments is a key and
attractive feature of REDD+
that we should pursue,
but that does not
mean it's easy